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January 28, 2005

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Re: Report on Timing of NECA Pool True-Up Submissions and FCC
Form 492 Interstate Earnings Monitoring Reports
WC Docket No. 05-29

Dear Ms. Dortch:

Attached is NECA's *Report*, made in compliance with the Commission's November 30, 2004 *Order* in WC Docket No. 04-372. The Commission directed NECA to file a report within 60 days from the Order's release date addressing timing issues between NECA's true-up processes and the submission of final September Form 492 Interstate Earnings Monitoring Reports.

In accordance with the Commission's rules, this *Report* has been filed electronically in the above-referenced docket.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard A. Askoff", is written over a light blue horizontal line.

Attachment:
Report

Cc: Tamara Preiss
Judith Nitsche
Douglas Slotten
Eugene Gold
Jay Atkinson
Richard Kwiatkowski
Marvin Sacks
Theodore Burmeister
Best Copy and Printing

**Before the
Federal Communications Commission
Washington, D.C. 20554**

In the Matter of)
)
Report on Timing of NECA Pool True-Up)
Submissions and FCC Form 492 Interstate)
Earnings Monitoring Reports)

WC Docket No. 05-29

REPORT

January 28, 2005

National Exchange
Carrier Association, Inc.
80 South Jefferson Road
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Attachment A – Cost Study Preparation Activities

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Executive Summary

As required by the Commission's November 30, 2004 *Memorandum Opinion and Order* in WC Docket No. 04-372, the National Exchange Carrier Association, Inc. (NECA) hereby files its Report on issues relating to timing differences between submission of true-up data to the NECA interstate access charge pools, and submission of NECA's Form 492 Interstate Earnings Monitoring Reports to the Commission.

NECA submits a final Form 492 Report in September of each year following a two-year monitoring period. Existing NECA procedures, however, permit companies to make adjustments to pooling data covered by the September Form 492 Report for a period of time that extends beyond the September filing date. These adjustments result primarily from submission of final cost studies by pool participants, and can cause the pool rate of return to change significantly.

The Commission's Order expresses concern regarding differences between the data contained in NECA's September 492 Reports and final pool results following true-up adjustments. It directs NECA to explain the legal basis of its existing pool procedures and to address whether those procedures can be changed to permit submission of Form 492 Reports that reflect final pool results.

This Report explains that most differences between September earnings monitoring reports and final pool results are associated with cost studies submitted after the reports are filed. This Report describes immediate steps NECA is taking to improve the timeliness of cost study submissions in 2005 and future years.

NECA also describes in this Report two changes to its procedures that could simplify and shorten the current pool window, including converting the current "rolling"

monthly adjustment window to one based on a calendar year, and a change that would make time periods for carrier-initiated pool adjustments consistent with the time periods specified in Commission rules for true-ups of ICLS and LSS data.

NECA further agrees with the Commission that, given the existing time-frame for LSS and ICLS true-ups, there is no reason why final pooling results cannot be substantially determined by December of the year following a calendar year study period. For this reason the Commission may wish to consider moving the filing date for final Form 492 reports to January of the second year following a monitoring period. These measures, if adopted, should significantly improve the accuracy of earnings monitoring reports and sharply reduce or perhaps eliminate the need for supplemental reports to reflect later pooling adjustments.

The Commission's Order also expresses concern NECA's Form 492 Reports do not provide a reliable basis for evaluating NECA's annual access tariff filings. NECA's Report describes additional documentation NECA plans to file as part of its annual access tariff filings in 2005 and future years. This additional documentation should enable the Commission and interested members of the public to correlate NECA's historic pool earnings data with NECA's cost and demand forecasts and proposed tariff rates.

NECA believes the information included in this Report is responsive to the questions and directives specified in the Commission's Order. NECA looks forward to working with the Commission and interested parties to implement the changes described in this Report.

**Before the
Federal Communications Commission
Washington, D.C. 20554**

In the Matter of)	
)	
Report on Timing of NECA Pool True-Up)	WC Docket No. 05-29
Submissions and FCC Form 492 Interstate)	
Earnings Monitoring Reports)	

REPORT

I. Introduction

In a *Memorandum Opinion and Order* released on November 30, 2004 in WC Docket No. 04-372,¹ the Commission directed the National Exchange Carrier Association, Inc. (NECA) to file a report within 60 days addressing timing issues between NECA's true-up processes and the submission of final September Form 492 Interstate Earnings Monitoring Reports.²

The Commission's Order correctly noted NECA permits its member carriers to submit adjustments or "true-ups" over a 24-month period following individual data months, and this true-up period, in effect, gives carriers 15 months after the date set forth in the Commission's rules for submission of final Form 492 reports to report final adjustments to interstate data.³ The Order directs NECA to clarify the legal authority or other basis for establishing this internal practice, and further directs NECA to explain

¹ July 1, 2004 Annual Access Charge Tariff Filings, *Memorandum Opinion and Order*, WC Docket 04-372, FCC 04-277 (rel. Nov. 30, 2004) (*Order*), *Errata*, DA 04-4050 (rel. Dec. 23, 2004).

² *Id.* at ¶ 28.

³ *Id.* at ¶ 29.

how and why it selected a 24-month true-up period, and whether the use of current technology could reduce the 24-month time period.⁴

The Order further directs NECA to address the possibility of establishing a time-frame for true-ups consistent with the filing of the September 492 Report. For example, the Order notes that if most carriers complete their cost studies within 7 to 12 months from the end of the year, and subsequent adjustments typically represent only about 10 percent of total adjustments, NECA might be able to complete its true-up process in less than 24 months.⁵ The Order suggests that if some carriers are able to complete cost studies by August, it might be possible for all carriers to do so, and accordingly directs NECA to explain why some carriers cannot complete their cost studies by this time. In particular, the Order directs NECA to explore how true-ups could be conducted in a manner that enables NECA to file its final rate of return by September 30 after the close of a monitoring period.⁶

Finally, the Order points out that carriers are allowed only a 12-month period under the Commission's rules for submitting Interstate Common Line Support (ICLS) data true-ups. It directs NECA to explain why this period could not also apply to NECA pool true-ups, and if so, why NECA would not be able to file its final rate of return report following the close of the calendar year.⁷

Since the Order was released, NECA has undertaken a comprehensive review of its pooling procedures as well as FCC rules and orders governing the interstate earnings

⁴ *Id.*

⁵ *Id.* at ¶ 31.

⁶ *Id.* The Commission's description of a "final" Form 492 Report in this context appears to refer to a report that includes all material adjustments to data.

⁷ *Id.* at ¶ 32.

monitoring processes. NECA has reached out to its member companies and their consultants for information on their procedures for preparing and submitting final cost studies and has sought input from companies as to ways to streamline the process and to achieve earlier submission timetables.

NECA has also undertaken a review of the relationship between historic pooling data and the projections used to set tariff rates for prospective periods. Based on this review, NECA has determined several ways it can augment its annual tariff filings in 2005 and beyond so as to enable the Commission to utilize historic and current pool earnings data to evaluate NECA's rate proposals. In addition to other actions described herein, these modifications should help address concerns regarding the availability of final earnings data for purposes of reviewing NECA tariff filings.

II. The Legal Basis for NECA's 24-month True-up Process

NECA's 24-month pool "window" is the product of a contractual agreement between NECA and its member companies, in place since NECA began operations in the early 1980's. The following information explains the history of the 24-month window and how this procedure has historically met the needs of member companies for time to complete cost studies after the end of a pool year, while also allowing NECA to review those studies and make adjustments to data where necessary.

A. Background

Prior to the 1984 divestiture of the former Bell Operating Companies from AT&T, independent telephone companies were compensated for the costs of originating and terminating interstate telephone calls through settlement agreements negotiated with the Bell Operating Companies. Settlements were determined either on the basis of

interstate average schedules⁸ or studies of company traffic patterns and actual costs.⁹

Once determined, settlement amounts were included in Bell System revenue requirements for recovery via interstate toll rates, pursuant to tariffs on file with the Commission.

Following divestiture, interstate access compensation for telephone companies became subject to new interstate access charge rules in addition to existing accounting and jurisdictional separations procedures. As an integral part of its access charge plan, the Commission mandated the creation of a new association of local telephone companies (NECA) to file access tariffs on behalf of local exchange carriers (LECs) and to administer the interstate revenues resulting from those tariffs.

Among the many challenges faced by the newly-created association was the need to replace then-existing settlement contracts between the Bell System companies and independents with a new contractual relationship, in this case between the newly-formed association and all member telephone companies. After extensive negotiations between representatives of large and small member telephone companies, industry representatives

⁸ The average schedules estimate small company interstate access costs by reference to various demand variables such as access lines, minutes of use, numbers of line haul circuits deployed, etc. *See generally*, 47 C.F.R. 69.605.

⁹ *See generally*, American Telephone & Telegraph Co. and the Associated Bell System Companies Charges for Interstate and Foreign Communication Service, Docket No. 16258, American Telephone & Telegraph Co. Charges, Practices, Classifications, and Regulations for and in Connection with Teletypewriter Exchange Service, Docket No. 15011, *Interim Decision & Order*, 9 FCC 2d 30, 38 (1967). (“Interstate and foreign communications services are, in general, offered jointly, under a nationwide schedules [*sic*] of rates and charges, by respondents [*i.e.*, The Bell System] and the independent companies over a network of interconnected facilities. The revenues from such services, after payouts are made to the independents as compensation for their participation, are treated each month by respondents as a common pool from which each is reimbursed for its expenses and taxes related to its participation in these services. The balance remaining in the pool is then apportioned in proportion to their net plant in service and certain other investments assigned to that month to these services. Thus, each respondent derives the same rate of return on its investment allocated to interstate and foreign communication.”)

developed a *pro forma* contractual agreement to govern the distribution of interstate access revenues between NECA and its member companies.

NECA's "Agreement for the Distribution of Interstate Access Revenues" describes terms and conditions for distribution of interstate access revenues for the pool(s) in which each exchange carrier participates. The Agreement is explicitly made subject to applicable FCC orders, rules and regulations, and delineates responsibilities of both the exchange carrier and the association with respect to data reporting, submission of bank account information, tariff filing responsibilities, and other matters relating to revenue collections and disbursements.¹⁰

A key provision relating to revenue settlements is specified in paragraph IV.B. of the Agreement, which states as follows:

In computing Exchange Carrier settlements and net balances, the Association shall:

* * *

4. Reflect retroactive adjustments to pooling data reported by exchange carriers or the Association in order to true up and/or correct previously computed settlements for up to 24 months following the data month to which the adjustment applies.

This provision establishes the contractual basis for NECA's "24-month window" procedure. It represented a compromise solution between large pool participants, who obtained pool settlements pursuant to monthly cost studies (and required a relatively short time to finalize actual cost reports), and smaller companies, who typically conduct cost

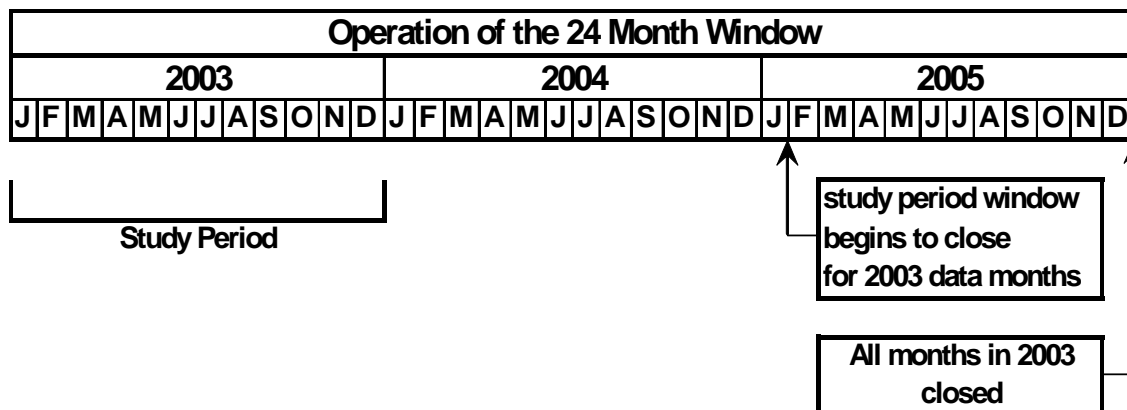
¹⁰ Separate revenue distribution agreements were established for companies that settle on the basis of costs and companies that settle on the basis of the interstate average schedules, reflecting particular differences in these settlement methods. Differences in these agreements are not material to this Report.

studies on an annual basis and needed more time following the close of a study period to finalize total company accounting data and conduct the necessary cost studies.¹¹

B. Operation of the 24-Month Window

The language set forth in NECA’s Revenue Distribution Agreement contemplates a “rolling” pool adjustment window. That is, as each calendar month in the current year passes, the corresponding month two years prior closes for purposes of data adjustments. For example, when this report is filed at the end of January 2005, the January 2003 data month will no longer be available for adjustment. In February 2005, the February 2003 data month will close, and so on.

The operation of the 24-month window is illustrated on the following timeline:



NECA’s 24-month window procedure has been maintained since the inception of pooling in 1984, with only limited exceptions required by FCC rules and orders.¹² For example, the Commission has directed NECA to re-open the 24-month pooling window

¹¹ The Commission has long recognized the existence of NECA’s 24-month window for pool true-ups. *See, e.g.,* MTS and WATS Market Structure: Average Schedule Companies, *Memorandum Opinion & Order*, 6 FCC Rcd 6608, Appendix at ¶21, n.45 (1991).

¹² The NECA Revenue Distribution Agreement is expressly made subject to FCC rules and regulations. Section II of the agreement provides that “[w]ith respect to all matters covered by this Agreement, the Exchange Carrier and Association shall comply with all applicable FCC Orders, Rules and Regulations, as may be modified from time to time by the FCC.”

to allow specific companies to submit retroactive adjustments when circumstances have warranted such adjustments.¹³ More recently, NECA has revised its pool procedures to allow adjustments to pooling data to reflect payments of ICLS and Local Switching Support (LSS), in conformance with the true-up and payment processing periods specified under Commission rules and USAC procedures.¹⁴

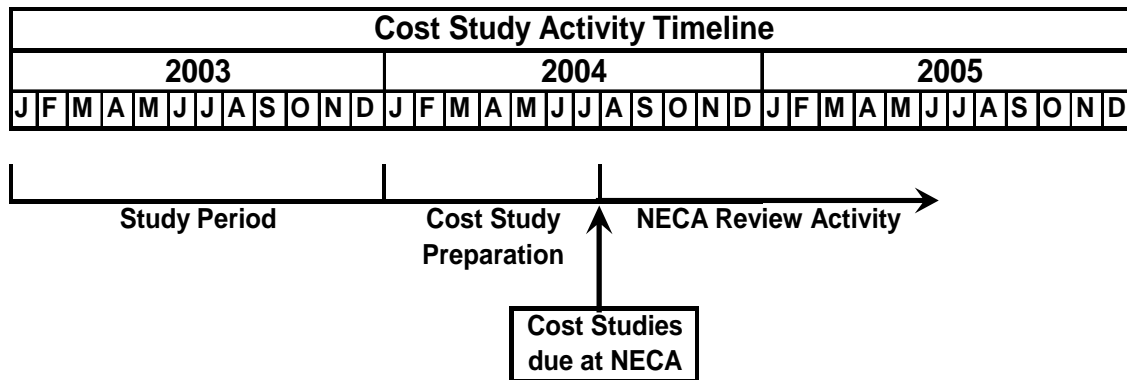
C. Cost Study Preparation Activities

As noted above, the 24-month window was developed to accommodate the needs of member companies that perform cost studies on an annual basis. Almost all NECA pool participants now perform annual cost studies, mostly utilizing outside consultants for this purpose. Cost study preparation activities typically begin following the end of a calendar year or other fiscal period. The first step in this process involves closing the company's books on a previous year and finalization and independent auditing of total company financial results. Companies must often rely on the services and availability of outside accountants and auditors to accomplish these steps. Cost study preparation itself begins with total company financial results, and also involves analysis of plant deployment, categorization based on FCC separations rules, identification and removal of non-regulated items, separation of regulated costs and expenses between the jurisdictions, and allocation of costs and expenses among the various access elements.

¹³ See, e.g., Amendment of Part 69 of the Commission's Rules to Ensure Application of Access Charges to All Interstate Toll Traffic, RM-5056, *Memorandum Order and Opinion*, 2 FCC Rcd 2154 (1987) at ¶ 26, directing NECA to recognize claims for reimbursement for certain periods outside the pool window. See also Accounting Treatment of Payments Made by the Puerto Rico Telephone Company and the Puerto Rico Communications Corporation to the Puerto Rico Department of Treasury, AAD 95-119, *Memorandum Order and Opinion*, 11 FCC Rcd 1677 (1996) at ¶ 27, directing NECA to reimburse PRTC and PRCC retroactive to 1992. Florida Public Service Commission – Request for Interpretation of the Applicability of the Limit on Change in Interstate Allocation, Section 36.154(f) of the Commission's Rules, AAD 95-77, *Order Granting Motion for Partial Stay*, 11 FCC Rcd 14324 (1996) at ¶ 6.

¹⁴ Changes associated with ICLS and LSS rules are discussed in further detail below.

These processes are shown on the following timeline, and are described in detail in Attachment A and associated Exhibits.



The material provided in Attachment A shows that NECA members sometimes face significant challenges in completing cost studies following the close of an annual study period. Company managers must balance the service needs of customers with the need to respond to detailed questions from accountants, auditors and cost study consultants. Events such as major plant deployments, mergers and acquisitions, changes in company personnel and other factors can sometimes make it difficult, if not impossible, for all cost companies to complete their studies by the time that NECA pool Form 492 reports are filed. On the other hand, it also appears significant improvements can be realized in the timeliness of cost study submissions overall. Measures to accomplish this result are discussed below.

D. NECA Cost Study Review Procedures

The 24-month adjustment procedure was also intended to provide NECA with adequate time to review cost studies for compliance with FCC rules and to require conforming data adjustments where needed.

NECA performs several types of review procedures on cost studies, as well as additional reviews of member company Carrier Access Billing Systems (CABS), average

schedule data submissions, billed revenues, High Cost Loop data submissions, company tariff forecasts, and settlement submissions. Pursuant to FCC rules, NECA also requires each company to certify all pooling data submitted to NECA.¹⁵

As indicated in the preceding diagram, NECA cost study review processes begin as soon as cost studies are submitted, and may continue over the course of the 24-month adjustment window. NECA's review processes are also subject to internal and external audits to assure adequacy of control processes. A description of each of NECA's current review processes can be found in Attachment B.

NECA's processes are also subjected to extensive review by NECA's external independent auditor, in conformance with guidelines set forth in the AICPA Statement on Auditing Standards (SAS 70): Report on the Processing of Transactions by Service Organizations. Each year, NECA's external auditor tests the effectiveness of NECA's control objectives and techniques, and reports on those procedures in a Service Auditor's Report. The Auditor's most recent Report finds that the procedures and policies described in the Report provide reasonable assurance NECA's control objectives were achieved for the period under review (from October 16, 2003 through October 15, 2004).¹⁶

¹⁵ NECA review procedures are conducted primarily by region office managers, not certified public accountants. In conducting its reviews, NECA relies upon financial statements certified by a responsible accounting officer of each company, opinions issued to companies by their independent auditors, and pool data certified by company officials pursuant to the Commission's Part 69 rules.

¹⁶ NECA's most recent Service Auditor's Report is being provided to the Commission on this date in connection with NECA's annual Cost Study Review Report, which is submitted pursuant to section 69.605(e) of the Commission's rules. Service Auditor's reports from all prior periods have also been unqualified.

E. Changes in Circumstances Since the 24-Month Window was Implemented

The Order directs NECA to explain whether circumstances have changed since the 24-month window was originally established, and whether NECA and its member companies might be able to take advantage of new technologies to shorten the period. NECA agrees reasonable modifications to NECA's 24-month window can and should be made to reflect current circumstances.¹⁷

The telecommunications industry has changed in many ways since the Commission's access charge rules were originally implemented. Some changes have been experienced by all industries (*e.g.*, the ubiquitous use of computers to accomplish routine accounting tasks, reliance on e-mail, development of the Internet, deployment of high-speed broadband connections, etc.). NECA and its members have also been affected by the introduction of new technologies and telecommunications services in the local marketplace, and the advent of new Universal Service mechanisms pursuant to the 1996 Act.

Of particular relevance to the issues under consideration in this Report is the fact that NECA's initial Carrier Common Line access tariff included all telephone companies then offering access service in the United States and its territories, including the Bell Operating companies. Larger companies were permitted to leave NECA's Common Line (CL) pool in 1989, however, and NECA's tariffs since then have primarily included a large number of smaller companies, primarily serving rural and insular areas of the country. Whereas larger companies at the time maintained in-house departments with responsibility for performing cost studies on a monthly basis, most companies remaining in NECA's pools continue to rely on outside consultants to conduct annual cost studies.

¹⁷ Order at ¶ 29.

Changes in the Commission's Universal Service and Access Charge rules have also substantially affected NECA pooling processes. The most relevant of these changes are those associated with the replacement of carrier common line access charges with a new Interstate Common Line Support (ICLS) mechanism¹⁸ and changes to Commission procedures governing Local Switching Support (LSS).¹⁹

These universal service support mechanisms operate on a residual basis with tariffed access charges to assure that companies have adequate revenues to support the provision of access services in high-cost areas. Carriers receive ICLS amounts from the Universal Service Fund to the extent overall common line revenue requirements exceed tariffed common line revenues. With respect to LSS, tariffed local switching charges are set to recover the difference between LSS amounts and carrier local switching revenue requirements. These relationships require close coordination between the development of carrier access tariffs and universal service reporting, and have implications for NECA pool adjustment processes as well.

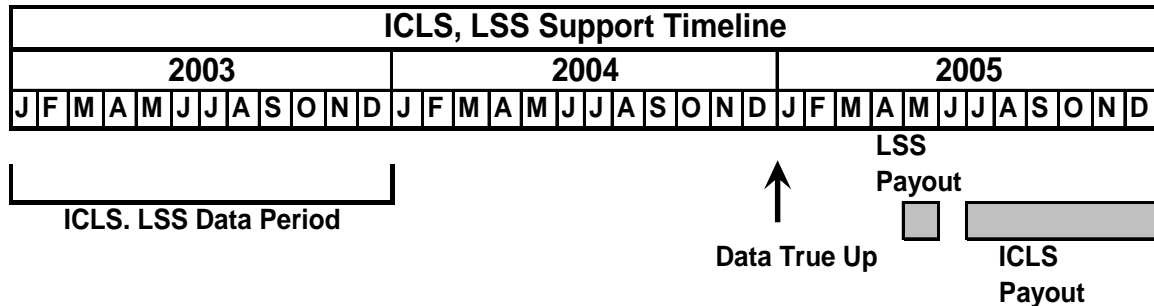
Carriers receive these support funds and pool settlements on the basis of estimates, but are required to "true-up" these amounts when actual data become available. Adjustments to ICLS and LSS payments to reflect true-up submissions are then processed

¹⁸ Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, Federal-State Joint Board on Universal Service, Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-of-Return Regulation, Prescribing the Authorized Rate of Return for Interstate Services of Local Exchange Carriers, CC Docket Nos. 00-256, 96-45, 98-77, 98-166, *Second Report and Order and Further Notice of Proposed Rulemaking in CC Docket No. 00 256, Fifteenth Report and Order in CC Docket No. 96-45, and Report and Order in CC Docket Nos. 98-77 and 98-166*, 16 FCC Rcd 19613 (2001).

¹⁹ Federal-State Joint Board on Universal Service, CC Docket No. 96-45, *Report and Order*, 12 FCC Rcd 8776 (1997); Federal-State Joint Board on Universal Service, CC Docket No. 96-45; Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Transport Rate Structure and Pricing, End User Common Line Charge, CC Docket Nos. 96-262, 94-1, 91-213, 95-72, *Fourth Order on Reconsideration in CC Docket No. 96-45, Report and Order in CC Docket Nos. 96-45, 96-262, 94-1, 91-213, 95-72*, 13 FCC Rcd 5318 (1998).

in the second year following the study year.²⁰ Because, as noted above, ICLS and LSS operate as residual support funds, these true-up payments must also be reflected in NECA pooling data.

The time periods for ICLS and LSS projections, true-ups and final payments over the course of the current two-year monitoring period are shown in the following diagram:



In preparing a response to the Commission’s questions regarding the cost study process, NECA sought input from companies and consultants regarding current methods of preparing cost studies, and has evaluated this information with respect to how the changes in circumstances described above might impact the timing of cost study submissions and final pool data true-ups. The information in Attachment A shows that most of the activities involved in preparing cost studies involve preparation of accounting data and careful application of FCC accounting rules to specific network configurations. Computerized accounting programs have improved the productivity of consultants and other professional staff involved in performing these studies. It is also true Commission actions, such as the imposition of a “freeze” on separations factors in 2001²¹ (which

²⁰ For example, LSS and ICLS support amounts applicable to calendar year 2004 were based on estimates supplied by carriers in October 2003 (for LSS) and March 2003 and 2004 for ICLS. Carriers will be required to true-up 2004 LSS and ICLS estimates by December 2005 based on final 2004 data. Commission rules require the Administrator (USAC) to adjust 2004 LSS payments by April 2006, and 2004 ICLS payments during the period July – December 2006.

²¹ Jurisdictional Separations and Referral to the Federal-State Joint Board, CC Docket No. 80-286, *Report and Order*, 16 FCC Rcd 11382 (2001).

reduced the need for companies to conduct traffic studies) have simplified the cost study process somewhat.

On the other hand, the process of preparing telephone company accounting data and studies has grown more complex in recent years as a result of technological, marketplace and regulatory changes since the 1996 Act, all of which would tend to lengthen the time required to complete cost studies. Moreover, as noted above, changes in Commission rules governing universal service support mechanisms, in particular, submission of LSS and ICLS data true-ups, to some extent lengthen the period required for processing final pool settlement calculations.

It appears, however, the existing “rolling window” approach to pooling adjustments may no longer be required since none of the cost companies currently participating in the NECA pools conduct monthly studies. Alternative approaches to these procedures are discussed in more detail below. Also discussed below are actions NECA is taking to encourage companies to submit cost studies in a more timely manner, and to coordinate the time frame for carrier-initiated pooling adjustments with ICLS and LSS data submission schedules. These actions will substantially advance the date by which pooling data reflects all carrier-initiated adjustments.

F. Potential Conflicts between NECA’s 24-month True Up Process and FCC Form 492 Submission Deadlines

The Order expresses concern there may be a conflict between NECA’s 24-month window and Commission rules governing submission of Form 492 earnings reports.²²

²² *Order* at ¶ 27, *citing* 47 C.F.R. § 65.600(b) (“Final adjustments to the enforcement period shall be made by September 30 of the year following the enforcement period to ensure that any refunds can be properly reflected in an annual access filing.”).

NECA agrees adjustments to pooling data that occur after submission of Form 492 Interstate Earnings monitoring reports in September can cause pool results to vary from those stated in the reports. Steps to minimize such variance are described in the following section. Also, as directed by the Commission, NECA is filing, concurrently with this Report, a revised Form 492 Report reflecting final pool adjustments to the 2001-2002 monitoring period.²³ NECA will continue to file such revised Reports in future years pursuant to the Commission's Order. It is hoped, however, the need for such supplemental reports will be lessened considerably as the recommendations set forth in the remainder of this report are implemented.²⁴

III. Improving the Accuracy of NECA's September Form 492 Reports

The Commission's *Order* directs NECA to address a number of issues relating to the timing of pool true-ups with respect to the filing of the September 492 Report, focusing in particular on the extent to which earnings data are affected by cost study submissions and whether improvements in the timing of cost study submissions might make it possible for NECA to file final rate of return reports by September 30 after the close of a monitoring period.²⁵

²³ *Order* at ¶¶ 27, 59; *See also, Errata*, DA 04-4050 (rel. Dec. 23, 2004).

²⁴ When it established rules for submitting Form 492 earnings data, the Commission recognized that NECA pool participants would require additional time to finalize pool adjustments. *See* Amendment to Part 65, Interstate Rate of Return Prescription: Procedures and Methodologies to Establish Reporting Requirements, CC Docket No. 86-127, Report and Order, 1 FCC Rcd 952 (1987). *See also*, NECA Comments at 3, CC Docket No. 86-127 (May 15, 1986). NECA has consistently disclosed in its Form 492 reports that such adjustments may impact final earnings results. Inasmuch as subsequent pool adjustments have in almost all cases driven pool earnings below initially-reported levels, no harm has resulted to interstate ratepayers as a result of such post-492 adjustments to pool settlements data. Moreover, as discussed above, current Commission rules governing ICLS and LSS true-up mechanisms necessarily result in changes to pooling data and associated earnings long after relevant Form 492s have been filed.

²⁵ *Order* at ¶ 31.

In response to the Commission's directives, NECA has reviewed data on cost study submission statistics to determine the extent to which improving the timing of cost study submissions could improve the accuracy of its September 492 reports as a measure of final pool earnings. NECA also discussed cost study submission procedures with cost companies and their consultants to determine potential avenues for process improvements.

NECA pool procedures specify cost studies are to be submitted within seven months of the end of a study period (e.g., by July 31 of each year for calendar year studies). Submission of cost studies by the end of July assures that information can be included in August pooling results, which form the basis for NECA's September Form 492 Reports. Cost study submission results for the past three years indicate this goal is met by a majority of member companies, but a substantial proportion do not submit cost studies in time to be reflected in August pooling results. This is displayed in the following table:

	<u>Aug-02 for 2001</u>	<u>Aug-03 for 2002</u>	<u>Aug-04 for 2003</u>
Total Number of Cost Studies Expected – Common Line Pool	721	737	752
Number of Cost Studies reflected in August data	440	454	470
	61.0%	61.6%	62.5%
Total Number of Cost Studies Expected – Traffic Sensitive Pool	607	629	650
Number of Cost Studies reflected in August data	351	376	402
	57.8%	59.8%	61.8%
Percent of cost company revenue requirement for cost studies reflected in August data:			
Common Line	51.6%	72.2%	71.5%
Traffic Sensitive	58.4%	63.9%	64.5%

Once cost studies have been completed and reported to the NECA pool, further cost changes are generally minimal. To confirm this, NECA compared pool settlement data for those companies that have submitted cost study data in time for inclusion in NECA's prior Form 492 reports and those that did not. This analysis showed aggregate pool revenue requirements associated with companies that have submitted studies in time for inclusion in August pooling results typically change by approximately one percent or less after the August data month.²⁶

In contrast, pool revenue requirement adjustments associated with companies that have not reported cost study data in time for the August pooling cycle are much greater, changing by as much as 15 to 20 percent. For example, revisions associated with 2003 cost studies after the August 2004 data month (i.e., between September and December 2004) for this subset of companies accounted for 99% (\$8.84 million out of \$8.96 million) of the change in cost company common line revenue requirements, and 91% (-\$9.25 million out of -\$10.17 million) and 96% (\$11.95 million out of \$12.46 million) of the changes in NECA's switched access and special access revenue requirements, respectively, for cost companies.²⁷

²⁶ An exception was noted for 2002, which represents the first year of cost study reporting under the new MAG rules. Cost shifts for the line port and transport interconnection charge (TIC) revenue reallocations require Local Switching Support (LSS) to be subtracted from interstate local switching revenue requirements before performing the calculations. Cost study revisions were required for a number of companies after the initial reporting of cost study data to reflect the impact of final LSS true-ups in the cost study, once that amount could be calculated.

²⁷ The information described above applies to cost company cost data only. Adjustments to revenue data and average schedule company settlement data have minimal effects after August of the year following the data period. For example, since 2001 adjustments after the August data month for average schedule settlements for common line and switched access have been less than 0.1%, with only a slightly higher adjustment rate for special access of between 0.2% and 0.6%. Revenue data adjustments after the August data month for common line and switched access have been less than 0.5%, and special access revenues have had a range of adjustments from 0.3% to 1.3%.

NECA also sought additional information from companies that submitted late cost studies in 2003 regarding the reasons for delays. In many cases, companies with delayed studies reported they experienced extenuating circumstances associated with purchases of exchanges, network upgrades, changes in company management and staff, changes in consultants, conversion from average schedule to cost settlement status, and in some cases, pending state regulatory activities (e.g., audits, rate cases and hearings) which can put substantial strain on management resources and can occur at unpredictable intervals. In other cases, however, studies were late due to circumstances that could be addressed by the addition of company or staff resources.

Based on discussions with consultants and individual companies, it is apparent that in some cases, delays in submitting cost studies are unavoidable. NECA believes it should, nevertheless, be possible for more companies to complete the cost study process and submit completed studies in time for those studies to be reflected in NECA's September Form 492 report. As the Order correctly points out, a majority of companies do, in fact, submit cost studies in time for inclusion in September 492 results.

Accordingly, NECA is initiating communications with its member companies and their consultants regarding the need to complete 2004 cost studies in time for inclusion in NECA's September 2005 Form 492 Report covering the 2003-2004 monitoring period. NECA will explain to member companies the relationship between cost study submissions and final Form 492 reports, and reinforce the importance of timely submissions to the accuracy of those reports. As part of this effort, NECA is sending letters to the general managers of each of its participating companies explaining the actions NECA is taking with regard to the Report and reinforcing the need for timely

submission of cost studies.²⁸ NECA has also scheduled a meeting in mid-February 2005 with representatives of all major consulting firms to discuss actions that can be taken to improve the timing of cost study submissions in 2005 and future years.

In addition, NECA will file a report with the Commission detailing cost study submission statistics each year, listing the names of companies that were unable to submit studies in time for inclusion in NECA's 492 Report. NECA believes this supplemental report, which could be included as part of NECA's annual report on Cost Study Review activities,²⁹ will enable the Commission to monitor improvements in cost study submission results.

NECA expects these actions to improve the timing of cost study submissions substantially in calendar year 2005. NECA intends to continue these efforts in future years, and expects that cost study submission statistics will continue to improve as companies and their consultants allocate resources and implement necessary staffing and methodology changes. This, in turn, will continue to improve the accuracy of NECA Form 492 reports.

It is unlikely, even under the best of circumstances, that all companies will be able to complete their cost studies on time in each and every year.³⁰ In cases where cost studies are not submitted in time for inclusion in NECA's 492 Report, NECA could create estimates of final cost study results for companies who have not completed studies, and include those estimates in its calculation of pool earnings reports for purposes of the

²⁸ The letter, among other things, explains the significant relationship between timely submission of cost studies and Form 492 Reporting requirements.

²⁹ See 47 C.F.R. § 69.605(e).

³⁰ As discussed in the materials accompanying Attachment A, in some cases delays are unavoidable due to management changes, major acquisitions, major plant additions or repairs, etc.

September 492 Report. However, this would represent a significant departure from current practice. NECA interstate earnings monitoring reports have consistently been based solely on actual pool settlement data, as certified by pool participants and verified according to NECA pooling procedures.³¹

NECA could, at a minimum, incorporate adjustments for ICLS and LSS true-ups in its final 492 Reports. Commission rules specify that those distributions occur in the second year after an individual study year. For companies that have submitted cost studies in time for inclusion in NECA's September 492 report, the effects of those true-up adjustments can be determined with sufficient reliability for inclusion in final reported results.

In addition, as discussed below, NECA plans to augment the data accompanying its annual access tariff filings with internal estimates of final 492 results, together with the supporting documentation needed for the Commission to validate these calculations. These estimates can be used by the Commission and interested parties in the context of their review of the cost and demand projections underlying NECA's tariff filings.

IV. Shortening the 24-month Settlement Adjustment Period

The Order expresses concern NECA's current 24-month adjustment period may be excessive, especially in light of the fact that companies must now submit final ICLS and LSS true-up data 12 months after the end of the annual study period.³²

NECA agrees the timing of ICLS and LSS true-ups and NECA pool true ups should be consistent. Two changes may help to resolve the Commission's concerns in

³¹ Pending receipt of final cost studies, pool results are based on monthly pool data estimates submitted by companies and certified pursuant to section 69.601(c) of the Commission's rules.

³² *Order* at ¶ 32.

this regard. First, if so directed by the Commission,³³ NECA could replace its current “rolling” 24-month adjustment window with a calendar year adjustment mechanism. The current mechanism, which closes individual pool periods on a month-by-month basis throughout the year, was developed at a time when the NECA pools included large companies that performed monthly cost studies.³⁴ Since most companies currently participating in NECA’s pools on a cost basis perform annual cost studies,³⁵ there no longer appears to be any need to close pooling periods on a month-by-month basis.

Second, if so directed by the Commission, NECA could amend its pool procedures so as to require all carrier-initiated adjustments to be finalized by December of the year following the study period. This action would harmonize pool adjustment periods with Commission rules governing submission of ICLS and LSS true-ups. NECA recommends the pool window be left open for an additional period beyond this point, however, to reflect NECA review findings and USAC or FCC-initiated changes (such as ICLS and LSS true-up distributions).³⁶

In this regard, it bears noting that Commission rules generally do not specify particular time periods for carriers to correct errors and omissions to previously-

³³ As noted above, *see supra* n. 12, NECA’s Revenue Distribution Agreement, including provisions relating to the 24-month window, is subject to FCC rules and orders.

³⁴ The use of monthly cost studies is consistent with the pre-divestiture practices of the Bell System, whereby the costs for providing interstate and foreign communications were calculated monthly by the AT&T Long Lines, the Bell Operating Companies and the larger independent companies. *See supra* n.9.

³⁵ About 40 companies in NECA’s Common Line pool, and 20 companies participating in NECA’s Traffic Sensitive pool, perform quarterly cost studies.

³⁶ For example, as discussed above, ICLS true-up distributions are processed in July through December of the second year following the data year. These post-December adjustments could have the effect of increasing or decreasing pool settlement calculations but (except for anticipated ICLS and LSS adjustments) should not have a material affect on pool earnings results absent extraordinary circumstances. As noted above, anticipated ICLS and LSS adjustments could be reflected in NECA’s 492 filings.

submitted cost data.³⁷ In a recent order relating to carrier-reported revenue data submitted for purposes of determining USF contributions, the Commission specified that carriers have up to a year following initial reporting of actual revenues to correct their FCC Form 499 submissions – effectively providing a 27-month period to discover and correct adjustments.³⁸ In light of the growing importance of this issue, the Commission may wish to consider establishing consistent time frames and procedures for carriers to submit adjustments to cost and revenue data to correct errors and omissions discovered following the filing of all such data.³⁹

Finally, the *Order* questions why, in light of the fact that ICLS and LSS data true-ups are due in December of each year, NECA would not be able to file its final rate of return report following the close of the calendar year if a December deadline is established for final NECA pool settlement adjustments (consistent with the timing for ICLS and LSS true-up submissions).⁴⁰

³⁷ The rules in some instances specify dates for correcting projections. For example, carriers have a 90-day period to file corrections to common line data projections submitted for purposes of computing initial Interstate Common Line Support amounts for the upcoming test period, and a 12-month period for submitting corrections to data projections underlying ICLS distributions in the prior test period. *See* 47 C.F.R. § 54.903(a)(3). However, the rules do not address whether carriers may submit subsequent adjustments to correct errors or omissions once actual ICLS data has been filed with USAC.

³⁸ Federal-State Joint Board on Universal Service, CC Docket No. 96-45, 1998 Biennial Regulatory Review – Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Service, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms, CC Docket No. 98-171, Changes to the Board of Directors of the National Exchange Carrier Associations, Inc., CC Docket No. 97-21, *Order*, DA 04-3669 (rel. Dec. 9, 2004), *recon. pending* (filed Jan. 10, 2005 by Qwest, Sprint, SBC, and BDP). Initial Form 499 revenue data is due by April 1 of the year following the study period. Thus, carriers have until March 31, 2005 to submit corrections to revenue data for calendar year 2003.

³⁹ Consistent guidelines could apply, for example, for corrections of ICLS, LSS, High Cost Loop and pool settlement data.

⁴⁰ *Order* at ¶ 32.

As the preceding discussion makes clear, NECA is confident it can submit earnings reports that incorporate all material pool adjustments immediately following the time ICLS and LSS data true-ups are reported. Moving the date for submitting final pool earnings reports from September to January of the next succeeding year (*e.g.*, January 2006 for the 2003-2004 monitoring period) would markedly improve their accuracy and reduce the potential need for supplemental filings.⁴¹ Accordingly, NECA recommends the Commission consider changing its Part 65 rules to this extent.⁴²

V. Improving the Commission's Ability to Use Pool Earnings Data to Evaluate NECA Tariff Forecasts

The information and recommendations described above respond to the issues and questions identified in the Commission's Order regarding possible conflicts between pool true-up procedures and the timing of NECA Form 492 reports. The recommendations discussed above, if adopted, will improve the timeliness of cost study submissions and improve the accuracy of NECA's Form 492 submissions.

NECA recognizes, however, improving the accuracy of NECA's 492 Reports is only a first step to addressing the concerns underlying the Order. The Commission is also concerned with developing methods that will enable it to use Form 492 earnings data to evaluate NECA's annual access tariff filings in the short time available before those filings are allowed to become effective. Even under the most optimistic cost study reporting scenarios, earnings reports based on actual pool settlements as of the time tariff

⁴¹ The effects of this change and other potential changes described above are displayed in a consolidated timeline provided as Attachment C to this Report.

⁴² 492 Reports provided in January should reflect the impacts of pending ICLS and LSS true up distributions based on true-up data filed with USAC in December.

materials are prepared and filed (*i.e.*, June) would not be “final” for purposes of evaluating proposed tariff rates.

Consequently, NECA intends to introduce certain enhancements to its annual tariff filing documentation that should enable the Commission to correlate reported earnings data with proposed rates. Specifically, beginning in 2005, the Description and Justification (D&J) accompanying NECA’s annual access tariff filings will include an update of the preliminary 492 report filed in March. This update will reflect the latest view of pool settlements data available at the time of the tariff filing.

In addition, NECA will include a projection of final 492 results, and will reconcile proposed rate changes (targeted to earn 11.25%) to those projections. This will include data and analyses that relate proposed rate changes to changes in cost and demand, exits from and entrances to the pools, rule changes, and earnings trends.

NECA will also add information on total company costs, as well as several years’ worth of actual cost trend data in support of earnings and tariff projections. With such data normalized for certain exogenous events (rule changes, pool participation changes, mergers, etc.) relative cost growth trends or variation in cost from year to year could be compared to predicted changes in costs underlying NECA’s proposed tariff rates.

NECA believes this additional information will enable the Commission to compare current earnings reports and tariff rate calculations in a meaningful manner and to use this data in reaching decisions as to whether suspension and further investigation of NECA’s tariff filings would be warranted. NECA plans to initiate discussions with

Commission staff regarding these proposed tariff support modifications well in advance of its next annual filing.⁴³

VI. Conclusion

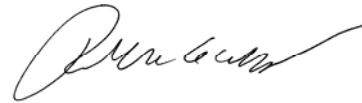
NECA believes the information included in this Report is responsive to the questions and directives specified in the Commission's Order, and the changes set forth herein will help assure that NECA's earnings monitoring reports accurately reflect all significant pooling adjustments as of the time they are filed. NECA looks forward to discussing with the Commission and industry participants follow-up actions needed to address the issues described in this Report, with the goal of establishing processes that insure the Commission and interested parties have timely and accurate earnings data for the NECA pools, and the ability to conduct speedy and effective reviews of future NECA tariff filings.

Respectfully submitted,

**NATIONAL EXCHANGE
CARRIER ASSOCIATION, INC.**

January 28, 2005

By:



Richard A. Askoff
Its Attorney

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⁴³ Pressure on the Commission to evaluate streamlined access tariff filings within a narrow time frame has increased significantly as a result of the 1996 Act's determination that such tariffs are "deemed lawful" if allowed to become effective. Notwithstanding the protection afforded by the Act, NECA believes it may also be possible to implement procedures that, in effect, serve to true-up pool earnings to allowed levels. Clearly, this concept requires thorough study and analysis before specific rule revisions can be proposed. NECA intends to have further discussions as well with Commission staff regarding potential mechanisms of this type.

Attachment A – Cost Study Preparation Activities

Report On Timing Of NECA Pool True-Up Submissions and FCC Form 492 Interstate Earnings Monitoring Reports

Attachment A

Cost Study Preparation Activities

Cost companies participating in either one or both of NECA's access charge pools currently provide service in 753 study areas. Cost studies for 538 (71%) of these study areas are prepared by external consultants. Cost studies for the remaining 215 (29%) study areas are prepared by company personnel.

Most NECA pool companies prepare annual cost studies and operate on a fiscal year ending December 31.¹ Following the end of each accounting period, companies typically spend several months closing their books for the previous year. This activity involves finalizing work orders on new plant placed in service, retiring fully-depreciated plant, and reviewing expense and investment data to assure that amounts are booked to the proper account.

Once this process is completed, external auditors often make on-site visits to review company books to ensure that accounting practices are in accordance with FASB standards. These audits usually take place during March and April of each year.² Complications that can delay the completion of financial audits include additional external audit requirements resulting from investments made by the company and, in some cases, evaluation of pending legal matters that could result in liabilities to the company.

CPA firms also generally prepare tax returns for each company, which are normally due on March 15, but virtually all companies obtain automatic 6-month extensions of this date pursuant to IRS rules. CPA firms then prepare tax returns for companies over the summer months, after financials have been completed.

While these activities are underway, consulting companies begin work on cost studies by requesting data needed to prepare the cost study (See Exhibit A-1, listing typical data needed by consultants). These data require extensive time on the part of company staff to collect and submit. Staff resource limitations can delay submission of this data.

In particular, companies are required to update and complete their continuing property records (CPRs). CPRs consist of detailed listings of cable and wire facilities and central office equipment, including type of plant, location, date put in service and associated costs, all as required by FCC Part 32 rules. CPRs are generally maintained by central office location and are often voluminous. Companies may either prepare their own CPRs, hire engineering firms to prepare them, or contract with their cost consultant to

¹ Approximately 10-15 companies perform annual cost studies on a fiscal year basis that is other than a calendar year.

² This timetable is consistent with requirements of various lending institutions such as RUS, CoBank and RTFC, which require that financials be certified by April 30 of each year. In cases where financial audits cannot be completed by April 30, lending institutions require written notification as to the reason for the delay in completion of the audit.

Report On Timing Of NECA Pool True-Up Submissions and FCC Form 492 Interstate Earnings Monitoring Reports

prepare this information. The process of updating involves collecting all invoices processed during the year, identifying the type of equipment and its functionality, and reflecting changes in the appropriate records. Companies that experienced major network changes during the year (e.g., installation of new switches, plant additions, network requirements, etc.) require significantly more time to compile and properly update CPRs.

This crucial step in the cost study process determines how plant is categorized. Categorization of equipment can make material differences in the way that associated costs are recovered. In some cases, consultants must make on-site visits to collect this information, particularly in cases where the company staff resources are limited or lack expertise in cost categorization rules. External preparation of CPRs can cause significant delays in the cost study process.

Throughout this process, consultants must communicate continuously with company personnel to ask questions, clarify information, request additional information, etc. As noted above, the process of preparing total company financial data takes time during the beginning of the year. However, company financial data is only a starting point for cost study purposes. This is because the company data usually includes both regulated and non-regulated accounting information. In order to prepare a cost study, a consultant must review each account to determine non-regulated amounts and remove them prior to performing the cost study.

Once regulated costs have been identified, this information is then loaded into the consultant's cost study program, which separates data between state and interstate jurisdictions, and then allocates interstate amounts to the various access elements prescribed by the Commission's Part 69 rules. Final cost study results are then typically reviewed by at least two levels of managers at the consulting company to ensure the accuracy of entered data and subsequent results. Data is then reviewed in detail by company management and certified before submission to NECA.

Further details of cost study preparation activity are described in letters from three consulting firms attached to this Report as Exhibits A-2, A-3 and A-4. These letters were provided at NECA's request for filing with this report and represent views of the respective consulting firms.

Attachment A
Exhibit 1 – Letter from JSI to NECA



6315 Seabrook Road Seabrook, Maryland 20706

phone: 301-459-7590, fax: 301-577-5575

internet: www.jsitel.com, e-mail: jsi@jsitel.com

January 24, 2005

Mrs. Carol Brennan
Vice President – Industry Relations
National Exchange Carrier Association
80 South Jefferson Street
Whippany, New Jersey 07981

Dear Mrs. Brennan:

In an effort to address the FCC's inquiry into the timetable currently in place for the completion of toll cost studies, John Staurulakis Inc (JSI) offers the following comments.

John Staurulakis Inc (JSI) is a consulting firm offering regulatory and financial services to more than two hundred incumbent and competitive local exchange carriers ("LECs") throughout the United States. Among its consulting services JSI performs annual Toll Cost Studies for approximately 150 LECs. These LECs range in size from approximately 200 access lines to well over 100,000 access lines. Personnel staffing these companies range from as little as three to several hundred. The complexity of companies networks vary significantly. Demands on the time of client personnel vary considerably due to other obligations, and reporting requirements, including Federal and State data requests.

JSI understands the Commissions desire to expedite the cost study true-up process and will make every commitment to do so. While JSI feels like we can complete the majority of our cost studies by the end of August annually, 100% compliance would be difficult due to the complexity of the cost study process.

- Initial cost study data request is sent to the client company in January.
 - Response time from client companies ranges on average from eight to twenty weeks, dependent largely on resources at the client company.
- Reconciliation of loops, circuits, and trunk groups.
 - A company's accounting and network staff may be involved and response time from client companies varies depending on staffing and workload demands.

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*547 South Oakview Lane
Bountiful, UT 84010
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- Completion of the Cable and Wire and Central Office analysis and allocation of associated investments.
 - Technological advances in the industry complicate this analysis. When assets are jointly used, cost allocations need to be made to insure that non-regulated costs are not being included in the regulated rate base.
- Analysis of the company's financial statements. This process ensures that the company's financials comport to FCC Part 32 and Part 64 rules and regulations and where necessary, incorporate adjusting entries into the study. Audit reports are typically not available before May following the audit year.
- Finalize the study and review the results of the study with the client who then authorizes submission of the final results to NECA for processing.

Overall, the completion of a cost study for a small single exchange company with less than 5,000 access lines, for example, should take 3-5 weeks. As the size of the company and the complexity of the network increases, so does the completion time. Some of our largest companies take several months to complete.

JSI understands the need for timely completion of Toll Cost Studies and is committed to working closer with its client companies in improving the process.

Sincerely,

Steven Meltzer

Steven Meltzer

Vice President – Operations

cc: Jim Frame

Manny Staurulakis

Attachment A
Exhibit 2– Letter from TCA to NECA



TCA Cost Study Process and Timelines

Following are the steps that TCA takes to complete over 55 annual Part36/69 Cost Separation Studies and some of the timeframes and impediments we encounter to complete these studies by the timelines established by NECA:

Request for information lists/letters are sent out in January since some of the required information is as of 12/31 and could be completed by the companies at any time after the end of the year.

On site visits to collect data don't happen every year but are usually scheduled for any new studies, where large upgrades have taken place, when financial or manager personnel has changes, and at the request of the company. This must be scheduled in a time frame that fits the company's availability.

All financial information must be based on audited financial statements. Part 32 audited trial balances need to be received for work to begin. Audits can be completed and available any time between March and June. Some of the issues that can delay audits:

- Closing delays by the companies.
- Manpower at various auditing companies used by the RLEC
- Auditors waiting on actuarial data for pension/benefit information
- Auditors waiting on cellular partnership and other 3rd party information
- Accounts Receivable confirmations and litigation (any current or potential law suits against the company) confirmations are sent out by auditors and they must wait for responses from the appropriate parties before completing their report
- Receipt of final M1 adjustments, which is one of the IRS schedules that is used in the development of taxes in the study, are not completed by the auditors until August/September

Continuing Property Records for COE is one of the key pieces of information needed for the study in order to assure the accuracy of the central office accounts and to get the categorization required for separations. There can be delays in receiving these CPRs as they can be prepared by various sources:

- RLEC prepared – many companies complete their own COE CPRs and due to work loads the updating of the CPRs can cause delays
- Engineering company prepared – some companies have their engineering firm complete the CPRs. Some turn these around quickly, others we don't receive the final until June or July.
- Consultant prepared – the company must provide copies of all invoices and work orders as well as indicate exchanges for each addition and how it will be used. The consultant uses the information to update and categorize the CPR program. If there have been extensive upgrades, this information can be difficult for the company to assimilate on top of their already busy workloads.

Cable and Wire Studies are probably the most time consuming part of a study. If significant changes have been made to the network, updated maps must be completed, size of cable/fiber for each route identified, and usage on each route determined. The consultant must rely on the plant personnel of the company to provide this data., along with current loop and special access circuit inventories. Again this can be difficult to get in a timely manner due to workloads of those employees.

Once all the information is received, studies take anywhere from 20 to 100 hours to complete based on the complexity. The more time consuming studies usually are multi-state cost studies that require inter-company allocations or that have large plant upgrades to analyze and understand.

Upper level consultants review all studies after they are completed. Revisions and a final high level review are then completed. The companies are then consulted, usually by phone, to review the results of the study prior to submission to NECA. This final review process can take 2-3 weeks.

TCA staffs enough consultants to be able to complete all our client studies by the NECA due date. However, it is assumed in that staffing that the 55 studies can be spread out over the March through July time frame. If there are a large number of the more difficult studies for which we are not able to get information from the company, the auditors, or the engineers in a reasonable manner, this could create a log jam at the end that could put meeting the deadline in jeopardy.

Other reasons that could create a problem in getting studies completed on time are:

- First year studies that are converting from average schedule. All information has to be developed and analyzed in depth from scratch and therefore could take longer to get the information and also to then complete the study accurately.
- Acquisitions can create the same issues, as the closings can be time consuming and current information difficult to transfer.

TCA has consistently met the NECA deadlines for submission of cost studies, with only a few exceptions over the years. Our company is committed to meeting any FCC established due dates, believing this is the quality service our client companies deserve. Although many of the problem areas listed above provide challenges to meeting this goal, we have for the most part been able to work with everyone involved to determine a way to complete all studies on time and as a quality product.

Michele Carpenter
Financial Director/Partner
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Attachment A
Exhibit 3– Letter from GVNW to NECA



January 14, 2005

GVNW CONSULTING, INC.

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TUALATIN, OR 97062
TEL 503.612.4400
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www.gvnw.com

Carol Brennan
Vice President
National Exchange Carrier Association
6400 S. Fiddler's Green Circle
Suite 1300
Englewood, Colorado 80111

01-18-05P01:46 RCVD

Dear Carol:

This is to follow up on our discussion regarding the feasibility of completing all annual Part 36/69 cost studies by the end of August of the year subsequent to the cost study period.

GVNW Consulting, Inc. currently prepares approximately 96 Cost studies per year. If our client companies were given unlimited financial resources, it is quite possible that all parties participating in the preparation of the cost studies for the 96 study areas could ramp up to a point where all 96 studies could be completed by the end of August following the study period. From a more practical standpoint, however, it is unlikely that cost constraints would be removed sufficiently to facilitate the completion of these 96 studies by GVNW and concurrent completion of the 700 to 800 other studies that are done by Incumbent LEC's or their consultants that may be competing for the same resources necessary to complete the studies.

Some of the resources needed to complete the study are as follows:

- ILEC employees
- Auditors
- Tax Return Professionals
- Cost Study Consultants

None of the resources listed above have the completion of an individual company's annual cost study as its only responsibility. While each of the above participate in different aspects of preparing the information used in the cost study, each of them have other responsibilities that may have equal or greater priority than the completion of an individual cost study. For example:

- ILEC employees – The small rural telephone companies generally cannot afford to have staff that is dedicated exclusively to the preparation of the cost study. Therefore, company personnel must prioritize their work and fit in the cost study work as time permits within the priority scheme. If cost constraints were not an issue, the companies could add additional people with the cost study as their primary responsibility.
- Auditors – CPA firms providing the audit services required by most regulated telephone companies provide service to a number of companies. It is obvious that the CPA firms cannot perform all of the audits for all of their clients at the same time. Therefore, the auditors schedule their fieldwork to efficiently use their staff. If it became necessary for all of their telephone companies audits to be accelerated, it is quite likely that they would have to add additional staff, or reprioritize their work to put the telephone companies first in line. This undoubtedly would result in additional cost to the audit firm that would be passed on to the telephone companies wishing the higher priority status.
- Tax professionals – Most of the small rural telephone companies use CPA firms to assist them in complying with the state and federal tax laws. Most of the Tax Professionals have many tax clients and must prioritize their work. Corporate Tax returns have an initial due date of March 15th of the year following the study period. Many of the Tax professionals cannot finish all of their required returns by this date and consequently have to file for a six-month extension until September 15th. Many of our client companies fall into this category and their returns are not completed until September 15th. Here again, the telephone company's work could be re-prioritized, but there is likely to be a significant cost if all of the telephone companies were requesting the same prioritization.
- Cost Consultants – Finalizing the Part 36/69 Cost Studies requires a very specialized level of expertise. Very few small rural telephone companies have this expertise on their staff. There are a limited number of consulting firms that have this expertise; consequently most of the firms that do have the expertise have a number of client companies for which they must complete the cost studies. GVNW strives to maintain an experienced multitasked staff that have regulatory and other skills beyond just the ability to complete a cost study. This allows GVNW to provide other services and keep the consultants productively employed beyond the task of completing the cost study. If GVNW and the other consulting firms are required to "ramp up" their ability to complete all of the cost study work by August, it would likely require the addition of more qualified consultants which would likely result in an increase in cost to the ILECs.

In evaluating the feasibility of completing all annual cost studies by the end of August, we point out the FCC's well reasoned approach to setting the Corporate Expense Limitation in Part 36. The FCC was astute in recognizing that there were certain corporate functions that had a minimum cost regardless of the number of access lines. For example, the cost of auditing, tax preparation, and completing a cost study have a cost that is not directly dependent on the number of lines in a company. The FCC set the allowable corporate expense for the High Cost Loop support taking this into consideration. Most rural telephone companies strive to be as efficient as possible in

performing these corporate functions, but if they were required to negotiate with all of the parties participating in the preparation of their cost study to assure their study would be completed by August and all of the other rural companies were negotiating with the same vendors, it is quite likely that the cost of complying with this requirement would far exceed what the FCC would consider prudent.

In some of our earlier discussions with NECA, it became apparent that some parties believe the cost study preparation process is primarily a mechanical function that should be completed fairly quickly. In the next section of this letter, I will try to highlight some of the tasks that must be performed and are not simply a mechanical function for the small rural telephone companies.

1. Analyses of Accounts – As part of the cost study preparation, we try to obtain some level of assurance that the balance sheet and expense accounts properly reflect Part 32 accounting. The amount of time spent on this activity will vary from company to company based on a number of factors, but primarily it will depend on the level of expertise and experience of the accounting personnel in the company. Some parties argue that the auditors do a test of accounts to make sure that transactions are being coded properly, and therefore there is no need to further review the accounting records when preparing the cost study. The auditors primary purpose in performing the test of transactions is to assure the financial statements are not misleading. As a general rule, the inclusion of an expense transaction in the wrong expense account will have no impact on the external financial statements and would not be of much concern to the auditor. However, the inclusion of an expense in the wrong Part 32 expense account could have a significant impact in the Part 36 Separations Process and the Part 69 Access charge results. It is also necessary to determine if the financial records are being maintained according to GAAP or according to Part 32. In some companies, the records are maintained according to GAAP and any adjustments to comply with Part 32 would be made in the cost study preparation process.
2. In order to help speed up the cost study preparation process, we routinely send a data request to the telephone companies early in the year. Some companies are very efficient in preparing the requested data, while other companies require a great deal of assistance from us in preparing the data. Following is a sample of some of the items we request:
 - a. COE investment by account and category. (Including DSL)
 - b. AFC Count Report by DSL, 56K and POTS
 - c. Circuit Kilometer Calculation as of year end
 - d. Circuit Termination report as of year end
 - e. Working Loop Report as of year end
 - f. Special Service Circuit Report
 - g. Copy of Special Access CABS billing
 - h. RUS Reports
 - i. Interexchange C&WF analysis

- j. Updated toll route drawings
- k. Plant, reserves, and depreciation expense by primary plant account
- l. Charitable contribution amounts and identify which accounts they are in
- m. TRS Expense paid and to which account it is booked
- n. Break down of rent revenues
- o. Tax Information
 - i. Summary of Deferred Taxes by primary plant account
 - ii. Schedule M-1 Adjustments
 - iii. Amortization of Investment Tax Credits
 - iv. Amortization of Excess Deferred Taxes
 - v. Alternative Minimum Tax
 - vi. Jobs Credit
- p. Annual State Commission Report
- q. Annual Audit Report
- r. Analyses of Account 6540 – separately identify federal USF, state USF, and other Access Expense
- s. Identify amount of AFUDC in account 7300
- t. Identify amount of RTB Class B Stock
- u. Minimum Bank Balance
- v. Summary of Rents and Benefits by Part 32 Account
- w. Breakdown of Directory Costs Between Alpha and Classified

There is a misperception by some that the separations freeze order significantly reduced the work required to complete annual cost studies. It should be noted that a Part 36/69 cost study involves the allocation of hundreds of categories and subcategories of costs, while only twenty specific factors were frozen in the separations freeze order. The freezing of the traffic factors did significantly reduce the amount of work in developing factors for study areas in states that did not require the continuation of traffic studies for the separation of state toll/access from local. However, the majority of the work performed by the consultant and company revolves around the verification of compliance with the Part 32 rules, and the assignment of the accounting costs to the Part 36 and Part 69 Categories and Subcategories. To illustrate the process, the following depicts the work that is done by the consultant and/or the company in evaluating the first few accounts addressed in the Part 36 Separations Rules.

General Support Facilities - Account 2110 – This is one of the easier accounts to evaluate because there is no categorization with in the Part 36 Separations rules. There is some work however to assure compliance with Part 32 and Part 69.

The first step is to determine if any of the facilities in this account are used jointly for regulated and non-regulated operations. If they are, the company's procedures for removing the non-regulated costs must be verified. In some cases, the companies remove the non-regulated costs before or during the audit process. For other companies, the removal of the non-regulated costs becomes part of the cost study process to make sure that only the "subject to separations" costs are included in the study.

The Part 69 process requires special treatment of the general purpose computer investment if the company is using its own computers to do their billing rather than using a service bureau. To comply with this requirement, we must first ascertain if the company is using their own computers for billing. If they are not, no further action is required for this account. If the company is using their own computers for billing, the 2110 account must be analyzed to determine the portion of the account that represents the General Purpose Computer investment. The FCC recognized that this may require a significant effort by the small telephone companies who keep their books based on the Part 32 B level of accounting, and they provided that a study could be performed periodically to determine the amount of General purpose Computer investment, and that this study could be used for multiple years. In doing the annual cost study, we recommend the consultant or the company evaluate if there was a significant change in the General Purpose Computer investment during the study period. If there was, we recommend updating the data. If the change is minor, we either use the special study amount, or if the actual amount was readily available from the evaluation we could use the actual amount.

Central Office Equipment – Accounts 2210, 2220, and 2230 – The evaluation of Central Office Equipment is a more daunting task. There is a widespread misperception that the individual accounts for COE correspond directly to specific categories i.e. Account 2210 contains only category 2 and 3, Account 2220 contains only Category 1, and Account 2230 contains only category 4. The FCC recognized that certain equipment may have more than one use, so consequently the separations rules were designed to address categories of equipment rather than dealing with equipment in individual accounts. This is particularly true with many of the small rural telephone companies who account for all of their common and power equipment in Account 2210, even though it is used for all of the COE categories for which the companies have investment.

The first step in the COE evaluation is the categorization of the equipment. While most companies have Continuing Property Records (CPRs), the process of updating them varies by company. Some of the larger rural companies update their CPRs on a regular basis through out the study period. Other may update at year-end as part of the closing of the accounting records for the year, while still others may update as part of the cost study preparation process, either internally or with the help of the consultant. As noted above, there are four categories of COE equipment. *The common and power equipment is generally maintained on the CPR records with an artificial category number because the categorization of the common and power equipment is dependent on the level of the investments in the other categories.* Part of the cost study process involves assigning the common and power to the other categories. Most of the 4 categories have numerous subcategories as follows:

1. Category 1 – While most of the small rural telephone companies do not have category 1 equipment, for those that do, the equipment must be identified based on the follow sub categories
 - a. Separate toll boards

- b. Separate local manual boards
 - c. Combined local manual and toll boards
 - d. Combined toll and DSA boards
 - e. Separate DSA and DSB boards
 - f. Service observing boards
 - g. Auxiliary service boards
 - h. Traffic Service Positions
2. Category 2 - Tandem switching equipment – This equipment must be analyzed to determine how much of the investment can be directly assigned, and how much of it must be allocated using the frozen factors associated with the relative number of minutes of use of the equipment for the 2000 study period. This equipment must also be evaluated to determine if it is jointly used for tandem and local switching. If it is, the cost of the joint use equipment must be split between category 2 and category 3.
 3. Category 3 – This equipment must be analyzed to segregate equal access equipment from the rest of the category 3 equipment. The number of access lines in the study area must also be analyzed and if the company's growth in access lines causes it to cross a threshold of 10,000, 20,000, or 50,000, the frozen allocation factor must be adjusted.
 4. Category 4 – This equipment must be assigned to a number of subsidiary categories as follows:
 - a. Exchange Circuit Equipment (4.1)
 - i. Wideband Exchange Line Circuit Equipment (4.11)
 - ii. Exchange Trunk Circuit Equipment (4.12)
 1. Basic
 2. Special Circuit Equipment
 - a. Interstate
 - b. Intrastate
 - iii. Exchange Line Circuit Equipment Excluding Wideband (4.13)
 1. Basic
 2. Special Circuit Equipment
 - a. Interstate
 - b. Intrastate
 - b. Interexchange Circuit Equipment (4.2)
 - i. Interexchange Circuit Equipment furnished to another company for Interstate Use (4.21)
 - ii. Interexchange Circuit Equipment Used for Wideband Services including Satellite and Earth Station Equipment used for Wideband Service – (4.22)
 - iii. All Other Interexchange Circuit Equipment (4.23)
 1. Basic
 2. Special Circuit Equipment
 - a. Interstate
 - b. Intrastate
 - c. Host Remote Message Circuit Equipment (4.3)
 - i. Direct Assigned Portion

ii. Allocated Portion

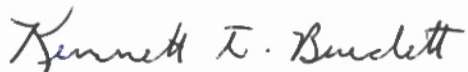
Note that costs in many of the subsidiary categories are determined based on an analysis of the equipment. Other assignments are made to subsidiary categories by allocating costs from a subsidiary category through the use of studies such as loop count studies or circuit termination studies.

The above discussion of the first two cost groupings in the separations rules give a flavor for the amount of work needed to analyze the accounting data and categorize it in preparation for the jurisdictional allocations. Many of the other accounts require similar analyses.

Another issue that adds to the time required to complete the cost studies is the lack of clarity in some of the rules. Many times there are disagreements regarding how certain of the FCC Rules and Orders should be interpreted. When requests for clarification have been filed with the FCC, the FCC has not been expeditious in responding. This lack of response results in numerous discussions with NECA for study after study, year after year. (Please note that the June 16, 1998 and the January 23, 2004 requests for clarification, interpretation, or declaratory rulings we filed with the FCC have gone unanswered.) The issues at stake are very complicated and require a great deal of time to analyze. While we sympathize with the FCC desire to balance all interests, the lack of a timely response adds to the time required to finalize the cost studies.

If you have any questions about the issues discussed in this letter, please give me a call at 503 612-4408.

Sincerely,

A handwritten signature in black ink that reads "Kenneth T. Burchett". The signature is written in a cursive, slightly slanted style.

Kenneth T. Burchett
Vice President

Attachment B – NECA Cost Study Review Processes

Report On Timing Of NECA Pool True-Up Submissions and FCC Form 492 Interstate Earnings Monitoring Reports

Attachment B

NECA Cost Study Review Processes

Cost studies are subjected to NECA's Cost Study Validation Process (CSVP) upon submission. The primary objective of NECA's cost study review process is to review cost study data for conformance with the Commission's rules for administration of NECA pool settlements, Universal Service Fund data reporting and access tariff filings. NECA's CSVP includes Data Reviews, Process Reviews, Cost Issue Conformance Reviews and Focused Cost Study Reviews. These procedures are described below.

1. The *Cost Study Data Review* is completed on all cost studies. Under the Data Review, all cost study data is reconciled to each company's financial data and entered into NECA's allocator to review for compliance with FCC Part 36 & 69 rules. NECA's allocator is a mechanized program that takes total company cost data and separates it between state and interstate and then from interstate into the various access elements based on FCC rules. The cost data is also subject to a variety of edits to determine reasonableness (i.e. negative balances, plant amounts with no associated expenses, etc.).

2. The *Process Review* is applied to selected exchange carriers (ECs) based on an assessment of risk factors. This review includes a full allocator reconciliation, which evaluates all differences by account and category in order to determine compliance with Commission rules. Differences that may indicate possible non-conformance with Parts 36, 65 and 69 rules are resolved by NECA Member Service Managers, who research, reconcile and document explanations for all significant differences.

3. *Cost Issues Conformance Review*. The Process Review also includes a cost issues compliance component, which checks each selected cost study for compliance with NECA's Cost Issues Manual. This review is intended to identify cost study discrepancies that may not have been detected by other Cost Study Validation steps. This process looks at recent issues that were addressed through the Cost Issues Process, to review for consistent treatment by all companies and consultants.

NECA's Cost Issues Manual consists of finalized issue resolutions, which are developed by NECA in conjunction with the Cost Issues Task Group (CITG). This is made up of exchange carriers, consultants, and NECA staff. The CITG's role is to review and discuss issues involving the application of FCC rules to particular situations. Once a cost issue is identified, a draft issue resolution is prepared and evaluated by NECA management. As part of this process, NECA may consult informally with the Commission on the treatment of particular items. If the proper application of a Commission rule is still in doubt after these analyses are completed, NECA or involved member companies may file for clarification with the Commission.¹

¹ For example, the Commission recently received letters from GVNW and NECA regarding the proper treatment of amounts recorded in Account 4340. See Letter from Kenneth T. Burchett, GVNW, to Secretary, FCC (Jan. 23, 2004); Letter from James A. Stolz, NECA, to Stephen Burnett, FCC (Apr. 7, 2004). NECA has also communicated with the FCC on matters relating to submission of high cost loop

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4. *Focused Cost Study Reviews* (FCSRs) are performed for selected study areas identified as having high risk based on prior experience, rule changes or other relevant factors. FCSRs include an in-depth review and analysis of specifically defined subject areas within selected exchange carrier cost study data. These may include broad categories of jurisdictional cost allocation and access cost allocation rules as set forth in Parts 32, 36, 64, 65 and 69 of the Commission's rules. Companies are selected for FCSRs at random or based on targeted selections that consider significant changes in a company's revenue requirement, unique or complex service arrangements or other information that suggests a more detailed review is warranted. FCSRs typically involve review of categorization data and allocation of cable/wire facilities, central office equipment, and traffic factor development. Non-regulated investment and expenses are reviewed, as well, to determine that amounts associated with these items are excluded from cost study submissions.

Other NECA Reviews

NECA also performs CABS (Carrier Access Billing System) Reviews, Average Schedule Reviews, Revenue Reviews, Universal Service Fund Data Reviews, Certification Reviews, Forecast Reviews, Loop Reviews and Settlement Reviews. These additional review procedures are discussed below.

1. *CABS Reviews* examine access usage and billing control procedures for companies and service bureaus or CABS vendors selected for review. This includes both manual review steps and automated processing of access usage input through a mechanized CABS Analysis Process program. The output of the mechanized program is compared against the output of the company's billing system for accuracy. Companies are reviewed based on a combination of random and targeted selections.

2. *Average Schedule Reviews* examine key settlement data inputs used by average schedule companies. This process includes reviewing network deployment schematics and methods for calculating specific components of line haul settlements. Companies are reviewed based on a combination of random and targeted selections.

3. *Revenue Reviews* verify that all cost and average schedule companies selected for review correctly report interstate access revenue and minutes of use to the Common Line (CL) and/or Traffic Sensitive (TS) pools. This process includes comparing NECA computations of billed access amounts against data reported via the monthly settlement process. Companies are reviewed based on a combination of random and targeted selections.

4. *Universal Service Fund (USF) Data Collection Reviews* compare High Cost Loop data items submitted to NECA pursuant to the Commission's Part 36 rules with company financial accounting information, such as ARMIS reports, accounting records, and cost

data. See, e.g., Letter from John Ricker, NECA, to Magalie Roman Salas, Secretary, FCC (Mar. 8, 1999) (requesting clarification of Part 36 rules related to affiliate leases).

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studies. NECA's USF review procedures also contain a series of edit checks. Range variance tests compare current USF submissions to the prior year's submissions to identify data outliers. In cases where unusual changes or variations in cost per loop have occurred since the prior USF submission, companies are required to provide explanations of those changes. All companies who submit USF data are subject to this review.

5. *Certifications.* Section 69.601(c) of the Commission's rules requires that a company officer or authorized employee responsible for the preparation of data submitted to NECA certify all settlements data, cost study data and Universal Service Fund data. By certifying these data, the officer or employee indicates that information submitted to NECA is complete, accurate and consistent with the Commission's rules. NECA Member Services managers review member company files to assure that all data has been certified as required by Commission rules and orders. All companies are reviewed to ensure that certifications are received in a timely manner.

6. *Forecast Reviews* are used to review cost forecasts supporting NECA's annual access tariff filings. A mechanized model forecast program is used by NECA's Member Service managers to produce initial three-year cost forecasts for each cost company. The model forecast program automatically aggregates input from the prior year's cost study into the Tariff Review Plan (TRP) format.² This input level allows a more refined application of separations factors to respective accounts. All companies are subject to a forecast review.

NECA Member Service managers discuss NECA forecasts with each EC or their consultant. ECs can also provide their own forecasts which are then compared with NECA's forecast for consistency and reasonableness. Any significant differences are investigated and resolved. Each EC or consultant reviews its construction plans and operational changes before further processing. NECA then develops trend analysis reports at the TRP level of detail. These reports compare prior and current year cost studies with all three forecast years to identify large or unusual trend variances. Inconsistencies are investigated and reviewed for reasonableness and compliance with Commission rules and NECA procedures before the current year's forecast is finalized for ratemaking purposes.

7. *Loop Reviews* are performed to ensure the proper count and classification of loops as reported for cost study and USF purposes. Reported data is compared to company source documents to review for proper treatment of message and special access loops, official loops and test loops. These reviews are done on a selected basis, generally in conjunction with the revenue reviews.

8. *Settlement Reviews:* The objective of the Pooling and Settlements Review Process is to review monthly settlements data for accuracy. NECA personnel perform both pre- and post-settlement analysis on all monthly settlement data submitted by ECs and consultants.

² The prior year's cost study amounts, which have been previously reviewed for compliance with Commission rules, are adjusted for anticipated growth factors, changes in EC operational characteristics and any known changes in Commission rules from the prior year.

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After the pre-settlement analysis, performed for all ECs, data is reviewed to determine the reasons for range failures. This review may consist of analyses of EC historical or forecast data and discussions with companies so that timely adjustments can be made to cost and average schedule settlements data prior to monthly processing.

NECA personnel also verify that adjustments are received from specific ECs to correct problems identified during the previous month's post processing analysis. NECA's override capability (the ability to change data reported by an EC after settlement data lock) is either approved by an EC when it determines that it has incorrectly reported data, or when NECA's executive management determines that the data is inaccurate and requires revision. NECA uses this override process to protect its membership and ensure compliance with Commission rules. NECA also performs a reasonableness review at the total pool level to ensure that all significant variances have been detected.

A post-settlement analysis is performed to determine if ECs are in compliance with the NECA Pool Administration Procedures with regard to truing-up data estimates within the specified time frames. If an EC has not trued-up as specified, NECA will then review its file on the EC for possible explanations or contact the EC for an explanation. NECA also compares the ECs' latest monthly pool input data with those of the past several months, which identifies any anomalies in data submitted by the ECs. If further analysis does not provide a reasonable explanation for any significant deviations, the discrepancies are investigated and resolved with the EC. In addition to the above, various analyses are conducted each month after monthly settlement processing. NECA compares prior and current year cost trends with related pool actual and final cost study amounts. Significant differences are investigated and reviewed for compliance with Commission rules and NECA procedures.

Cost Study Compliance Reports: Under section 69.605(e) of the Commission's rules, NECA is required to file an annual report of cost study review activities that result in changes to company common line or traffic sensitive revenue requirement of ten percent or more. NECA's 2004 Cost Study Compliance Report is being filed on the same day as this Report.

Auditing

NECA's Internal Audit department audits NECA's Cost Study review procedures, CAR review procedures, the USF Review Process, and Forecast Review Process on an annual basis. These internal audits are designed to assure that all of the required reviews are completed and conducted in accordance with NECA's procedures, and that corrective action is taken where necessary. The internal audits also determine whether required reviews are made for cost issues compliance, EC certification of the data, and conformance of data with the Commission's Accounting, Separations and Cost Allocation rules. Internal audits also cover NECA's Pooling Administration and Settlement review work with specific testing of operational reports and data processing controls.

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The Internal Audit department issues written reports on all audits conducted and transmits them to NECA management for information and corrective action. Internal Audit also ensures that NECA management complete all recommended corrective actions. Follow up reports are reviewed by the Audit Committee of NECA's Board of Directors.

In addition to its internal auditing activities, NECA also engages its external, independent auditors to conduct an annual Third Party Review conforming with the guidelines set forth in the AICPA Statement on Auditing Standards (SAS 70): Report on the Processing of Transactions by Service Organizations. The Service Auditor's Report outlines specific procedures and controls present in NECA's operation of the Interstate Access Pool and Universal Service Fund systems, and tests performed by the auditor to assure compliance with those procedures and controls.

Attachment C – Consolidated Timeline

Consolidated Timeline Reflecting Potential Revisions to NECA Procedures & Final FCC Form 492 Reporting Date

